Contribution of Strategies To Sustainable Competitive Advantage Among Banks After Interest Rate Controls Reintroduction In Kenya

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ABSTRACT
High competition in the banking sector forces banks to adopt appropriate strategies for competitive advantage. This study examined contribution of competitive strategies to sustainable competitive advantage in the sector. The study used a cross-sectional design on a target population of all the 43 banks in Kenya. The sample for the study however concentrated in Nairobi County which had 38 banks and a total workforce of 3770. Respondents were proportionately stratified by employee category to arrive at total number of 377. Primary data was collected from 377 respondents using structured questionnaires through drop and pick method. Secondary data was collected through desk and content analysis from the bank’s records and reports. Statistical Package for Social Sciences V 22.0 was used to analyze data. Descriptive, inferential, correlation, and regression methods were used to analyze data. Resulting central tendency measures and correlation and regression coefficients were used to establish the relationship between competitive strategies and sustainable competitive advantage. The study findings indicate that differentiation strategy and sustainable competitive advantage are positively and significantly related ($r=0.166, p=0.001$) and cost leadership strategy and sustainable competitive advantage are positively and significantly related ($r=0.085, p=0.034$). This study thus concludes that cost leadership strategy and differentiation strategy have an impact on competitive advantage and should be pursued banks. Banks should adopt differentiation strategy and cost leadership strategy in the wake of interest rates reintroduction.

Key Words: Innovation, Differentiation, Cost Leadership, Focus Strategy, Competitive Advantage, Bank

INTRODUCTION
Sustainable competitive advantage has been an area of focus for many banks over several years. In the period before interest rates capping in Kenya, banks benefited a lot from high rates. At that time, business favoured banks which sometimes took advantage through cartels to maintain very high interest rates (Ongore & Kusa, 2013) at the customer’s disadvantage. This practice enabled banks to make a lot of profit without necessarily employing strategies to sustain their businesses. Shortly after interest rates control laws took effect in Kenya in 2016, banks started taking deliberate steps towards adopting appropriate approaches to enable them achieve competitive advantage. Competitive advantage is the ability of an organization to offer a superior value at relatively lower cost or provide better value at higher costs by differentiating products or services. But Pearce and Robinson (2014) argue that influence of environmental changes to a business or a firm usually emerges as a result of competition.
Johnson, Scholes and Wittington (2012), adds that a business unit can achieve competitive advantage in its specific market by adopting competitive strategies. This according to Sidorwicz, (2012) can be leveraged by adopting competitive strategies which consist of strategic thinking, innovation; and being skill-based.

Porter (1991) argues that organizational competitive position can be determined by the organization’s structure as well as the structure of the industry it operates in. Therefore different strategic positioning of the organization will enable the firm to compete successfully (Kim, et al., 2008). Kim et al., (2004) stated that an organization requires both efficient and effective strategies that can help transform itself into a competitive organ. Porter (2004) adds that effective strategies will lead to outstanding performance and achievement of sustainable competitive advantage which is attained when a firm develops attributes which allow it to perform above its competitors. By identifying attributes especially its core competences, a firm is able to concentrate on its strength over its competitors so as to attain sustainable competitive advantage. Core competences are usually very hard to copy because they are normally connected to the departmental management value chain, supply chain and distribution chain connections in the organization (Johnson and Scholes, 2008).

Porter (1985) argues that a firm can compete using two main competitive strategies – low cost or differentiation. Differentiation entails modification of a product being offered by a firm to make it perceived more unique and attractive industry wide. It involves differentiating a product or service from competitor’s as well as the product mix of the own firm. Differentiation can be attained through diverse ways such as brand image, design, technological features, and dealer network and customer service. The modifications are normally small; such that they can be simply an alteration in packaging or include modification in the theme of advertisement. The purpose of this strategy of product differentiation is to establish a position that capable customers will view as exceptional (Porter, 1998). Studies, (Nkegbe & Yazidu, 2015) argue that companies enjoying expansive market share and who differentiate their products and services are at vantage points of becoming competitive. However, cost is a serious issue in businesses and Soana (2011) posits that for commercial banks to earn better returns on their investments, they need to reduce their operational costs.

Porter (1985), and subsequent models, present cost leadership strategy as an effective approach for effective cost management in organizations (Onuonga, 2014). Cost leadership strategy enables a firm to offer the lowest price for a product as compared to the price offered by competitors for a similar product. Cost leadership also enables a firm to operate both efficiently and effectively by weakening its competitor’s growth and reducing their profitability (Obamuyi, 2013). A firm will be able to offer low prices and high quality products than what is being offered by competitors when the cost of materials is low. A firm can be able to achieve cost leadership by application of efficient operations, developing appropriate innovative initiatives, designing effective processes, by embracing modern technology and sometimes by outsourcing manufacturing services when offered at low costs (Porter, 1998).

Banks have for many decades earned an enviable position of being among the major contributors to economic growth. This is however against a back drop of regulation. The Kenyan banking sector has been regulated by the Central Bank of Kenya (CBK) since the year 1966 to promote an independent monetary and fiscal policy (Adams 2010). The banking sector in Kenya comprise of 44 banking institutions, 9 microfinance banks, 13 money remittance providers, 8 representatives offices, 87 Forex Exchange Bureaus and 2 credit reference bureaus (CBK, 2014). Out of the 44 banking institutions; Equity Bank Kenya Limited, Standard Chartered Kenya, Stanbic Bank Kenya, Barclays Bank of Kenya, Kenya Commercial Bank (KCB),

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Banks formed their lobby organization, the Kenya Bankers Association (KBA) which has brought them together. Through this association banks are able voice their concerns to the regulator and address issues affecting them in a united manner. This, coupled with other internal factors within individual banks, they have experienced fast growth rate thereby increasing the number of banked Kenyans from about two million in 2005 to over fourteen million in 2014 (CBK, 2014). Despite this growth, the banking sector still remains sound and resilient due to enhanced regulatory framework which has established reliable corporate governance and risk management procedures to deal with risks as banks expand beyond the Kenyan border.

Previously banks have been operating in relatively market driven environment where they fixed interest rates for their products according to market forces. However, this situation changed in the year 2016 when the regulator reintroduction interest rates controls capping the maximum at 14%. It is therefore uncertain whether banks are adopting appropriate strategies in view of the new controls to sustain this growth and resilience is sustainable in the long run. This study therefore did an empirical investigation of the contribution of differentiation and cost leadership strategies on competitive advantage of banks in Kenya and sought to answer the question: have commercial banks in Kenya adopted differentiation and cost leadership strategies and are these strategies having any influence on their performance after the 2016 reintroduction of interest rates controls. The main objective of the study was to establish the contribution of competitive strategies to the sustainable competitive advantage banks in Kenya.

LITERATURE REVIEW

Theoretical review

This study was anchored Michael Porter’s generic competitive strategies theory and Henry Mintzberg’s emergent strategies model. Porter (1985) authored a two dimensional generic competitive strategies model. In this model, Porter argues that whether a firm’s performance is below or above average determines the relative position of the firm in the industry. In essence, long run performance of a firm is based on its sustainable competitive advantage. Porter (1985) highlights that for a firm to successfully cope with the competitive forces; there is need to implement the potential generic approaches comprising of cost leadership, differentiation and focus; so as to outperform other firms in an industry. Therefore, competitive strategy will emerge from the knowledge of the principles of competition which determine the attractiveness of the industry. The purpose of competitive strategy is to cope with and alter the guidelines in the behavior of the firm. Porter (2008) states that competition state in the market depends on the competitive forces which include: the threat of substitute products (including technology change), the threat of established rivals, the threat of new market entrants; the bargaining power of suppliers and the bargaining power of buyers.

Mintzberg (1994), on the other hand holds that people use "strategy" in several different ways for example as a plan- a "how," a means of getting from here to there, strategy is a pattern in actions over time- for example, a company that regularly markets very expensive products is using a "high end" strategy, strategy is position-it reflects decisions to offer particular products or services in particular markets and finally strategy is perspective-it is a vision and direction. Mintzberg (1994) further argues that strategy emerges over time as intentions collide with and accommodate a changing reality. Therefore, one may start with a perspective and conclude
that it calls for a certain position, which can be achieved by way of a carefully crafted plan, with the eventual outcome and strategy reflected in a pattern evident in decisions and actions over time. This pattern in decisions and actions defines what Mintzberg called "realized" or emergent strategy.

The Mintzberg’s model briefly states the importance of evaluating the environment when coming up with strategies. However, this brief mention is insufficient in providing a reliable framework within which the organization can thoroughly evaluate the environment and come up with corresponding strategies. The model has also been variously faulted on its emphasis on the monitoring of the competitors’ movements without paying attention to other factors in the industry. Strategic management experts propose the use of a more balanced approach of industry analysis which considers the actions of the competitors are just one of the components of the industry (Grant, 2007). The model also fails to pursue the question of core competencies in a manner that creates a better understanding of the same.

**Empirical review**

*Contribution of differentiation strategy to sustainable competitive advantage*

Differentiation entails modification of a product being offered by a firm to make it perceived more unique and attractive industry wide. It involves differentiating a product or service from competitor’s as well as the product mix of the own firm. Differentiation can be attained through diverse ways such as brand image, design, technological features, and dealer network and customer service. The modifications are normally small; such that they can be simply an alteration in packaging or include modification in the theme of advertisement. The purpose of this strategy of product differentiation is to establish a position that capable customers will view as exceptional. When the market target of a firm sees the product or service as being contrast from the competitor’s product, the business will gain more affability in designing its marketing mix. According to Bennet (2002), an effective differentiation strategy will translate and uplift the product or service from competing primarily on the basis of price to competing on the basis of non-price attributes such as promotional variables, product characteristics or distribution strategy.

According to Porter (1998), a business needs to differentiate itself in diverse ways so as to attain competitive advantage. The differentiation dimensions can be classified in three groups. Firstly, to achieve differentiation, a business can pay attention on the attributes of the products directly, such as the timing of introducing the product, the features of the product, the complexity of the product, or the location of the product. Secondly, a business can attain differentiation by focusing on its relationship with its customers, through customization of the product, product reputation and consumer marketing. Finally, differentiation can be achieved by a firm aiming at the interconnections within or between businesses such as linkage which exist within the functions of the firm, product mix, linkage which exist with other firms, the channels of distribution and service support. According to Barney and Hesterley (2010), product differentiation is simply an outcome of the creativity of individuals within the firm. It can only be restricted by the existing opportunities, or opportunities that can be developed in an existing industry and the capability of business to innovatively invent strategies to grasp those opportunities.

Parasuraman (1997) states that brand development and promoting the product actively to customers is the easiest way to achieve differentiation in a market that is highly competitive. In banking industry, many banks usually provide almost similar products for almost the similar price. According to Chang et al, (1997), banks may not be able to gain customer satisfaction if it doesn’t increase the quality of its product beyond the basic or normal service with extra
features and value. Therefore, differentiation strategy is the sure initiatives that can be employed to increase performance and attain sustainable market position.

Differentiation is a successful marketing strategy because it facilitates superior performance. According to (Degryse, 1996; and Kim and Vale, 2001), most banks utilize both vertical differentiation models such as location of branches, and horizontal differentiation models such as remote access possibilities, ATM network, and reputation; for sustainable competitive advantage. Thompson and Martin (2005) argue that cost leadership and differentiation are considered to be pulling in different directions simply because differentiation brings additional costs so as to add value for which clients are ready to pay high prices for. Differentiation Increases margins to deal with supplier power while reducing buyer power, hence no need for a low-cost position.

**Contribution of cost leadership strategy to sustainable competitive advantage**

Cost leadership is the clearest of the generic strategies for sustainable competitive advantage (Porter, 1985). This is whereby a firm offers the lowest price for a product as compared to the price offered by competitors for a similar product. Cost leadership enables a firm to operate both efficiently and effectively by weakening its competitor's growth and reducing their profitability. A firm will be able to offer low prices and high quality products than what is being offered by competitors when the cost of materials is low. A firm can be able to achieve cost leadership by application of efficient operations, developing appropriate innovative initiatives, designing effective processes, by embracing modern technology and sometimes by outsourcing manufacturing services when offered at low costs.

According to Spulber (2009), it is necessary to offer low costs as compared to competitors in order to be able to attain overall cost leadership which is very key in achieving sustainable competitive advantage. Thompson and Martin (2005) on other hand state that a firm must have a stable position in cost leadership in order to gain reasonable benefits from it and competitive advantage. Cost leadership doesn't necessarily mean that the firm will offer lowest price products, this is because most often, the lowest priced services are perceived to be inferior which may be appealing to only a small portion of the market. Normally, the amount charged for a product by a firm determines the performance level of the firm in terms of profitability and customer satisfaction (Turel & Serenko, 2006).

An organization with a cost leader position has a wide scope and therefore can serve larger market segments, and they are able to operate in other related industries. The source of the cost advantage may rely on many factors which may be dependent on the structure of the industry. For a firm to attain superior performance, it must achieve and sustain an overall cost leadership. If this is achieved the firm can charge prices which are at the industry level or almost near the industry average level (Wit and Meyer, 2010). A cost leader is expected to attain similarity in the differentiation bases so as to be above average relative to its competitors; although it's attainment of competitive advantage is dependent on cost leadership. A company pursuing cost leadership must ensure that its customers are willing to accept a lower degree of differentiation (Gaik, 1994). If they are not; cost leadership is not the appropriate generic strategy. Recent studies have found that there can be more than one cost leader in an industry. If a firm does not recognize this fact they will make serious strategic errors. In an industry with two or more cost leaders, rivalry is severe between the firms because every little bit of market share is crucial (Partridge and Perren, 2006).

Most Previous studies (Warucu, 2004; Chege, 2008; Gakenia, 2008) conducted in Kenya have been concerned with investigating the strategies formulated and implemented in the financial
sector before the 2016 re-introduction of interest rates controls. Re-introduction of interest rates is a serious issue in the banking industry especially owing to the importance banks attach to interest rates since it is one of the factors that used to give them competitive advantage. This study analyzed the competitive strategies now used by banks and whether they contribute to the banks’ sustainable competitive advantage after re-introduction of interest rates controls in Kenya.

Conceptual Framework
The conceptual framework shows the relationships among the study variables. The independent variables are the competitive strategies while the dependent variable is the sustainable competitive advantage banks in Kenya. These are shown diagrammatically in Figure 2.1.

![Conceptual Framework Diagram]

**Figure 2.1: Conceptual Framework**

Research hypotheses
The following hypotheses were used to test the relationships depicted in the study objectives:

- **H01**: Differentiation strategy has not contributed to the sustainable competitive advantage
- **H02**: Cost Leadership strategy has not contributed to the sustainable competitive advantage

**METHODOLOGY OF THE STUDY**
The study was anchored on positivist philosophy and formulated hypotheses to interrogate the perceived relationships among the variables. The study adopted cross sectional research design in which data was collected at a particular point in time in September and October 2017. The target population was the 44 banks in Kenya. The study however focused on banks with headquarters in Nairobi County and thus the study population 38 banks which had a total of 3770 employees. A sample size of 10% was deemed appropriate for the study. This was in line with Mugenda and Mugenda (2013) who argue that 10% of the population is adequate for a study of this nature. Data was collected from 377 employees of these banks based on a proportionate formula to determine the number of respondents per bank. Within each bank,
respondents were categorized into senior management, middle level management, supervisors, and relationship officers.

The study used primary data collected using structured questionnaire and secondary data collected through desk and content analysis. The secondary data consisted of monthly financial and operational records of the banks. The questionnaires contained both closed ended and open ended questions. The closed ended questions had alternatives for the respondents to choose responses to illustrate the scenarios. The questionnaire which was distributed through drop and pick method was designed in five point Likert scale format where 1=strongly disagree, 2=disagree, 3=uncertain, 4=agree and 5=strongly agree. Open ended questions were also used in the questionnaire to collect non-quantitative data to assist in explanations. Pilot study was conducted on a select 10 banks to collect data for testing reliability of the instrument and validity of the contents of the questionnaire. The ten banks were excluded from the main study. Reliability tests in SPSS Version 22 used Cronbach's alpha and returned values greater than 0.70 (See Table 3.1) which meant the instrument was reliable according to Mugenda and Mugenda (2013).

<table>
<thead>
<tr>
<th>Variable</th>
<th>No of Items</th>
<th>α=Alpha</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Differentiation Strategy</td>
<td>6</td>
<td>0.732</td>
<td>Acceptable</td>
</tr>
<tr>
<td>Cost Leadership Strategy</td>
<td>6</td>
<td>0.702</td>
<td>Acceptable</td>
</tr>
<tr>
<td>Sustainable Competitive Advantage</td>
<td>6</td>
<td>0.834</td>
<td>Acceptable</td>
</tr>
</tbody>
</table>

The data collected in the main study was coded and grouped based on their similarity and then tabulated. Descriptive analysis and multiple linear regression analysis were used to analyze data. Central tendency measures including mean and standard deviation were used to examine individual variables while correlation and regression coefficients were used to establish relationships between competitive strategies and the resultant sustainable competitive advantage. The open-ended questions were analyzed using conceptual content analysis. The study used Statistical Package for Social Sciences (SPSS V 22.0) for quantitative data analysis to generate statistics.

The regression models used were of the form:

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + e \]

Where:
- \( Y \)=sustainable competitive advantage
- \( (\beta_i=1, 2) \)=The coefficients for the various independent variables
- \( X_i \) for;
- \( X_1 \)=Differentiation strategy
- \( X_2 \)=Cost leadership strategy

The findings were presented in form of percentages, tables, charts, and graphs. Hypotheses were tested using the Chi-Square.

Ethical considerations including moral standards and respondents’ consent were obtained prior to collecting data. Permit to carry out the study was also obtained from the National Commission of Science Technology and Innovation (NACOSTI) the body charged with regulation of research the country. Specifically, the study observed three principles of ethics.
RESULTS OF THE STUDY

At the end of data collection, a total of 364 questionnaires had been collected resulting in an impressive response rate of 96.6%. A demographic analysis of the responses showed that 60% of the respondents were male while 40% were female which demonstrates that majority of the respondents was male. Further analysis of the respondents by age indicated that majority (30%) of the respondents aged from 26-35 years followed by 22% were aged from 46-55 years, 15% over 55 years and finally a paltry 8% were aged from 18-25 years. This implies that majority of the management employees were middle aged employees. Analysis was also done by level of education and this showed that majority (47%) of the respondents had Bachelor degrees followed 32% with master qualification, 17% Diploma and lastly a paltry 4% of the respondents had doctoral qualifications. Position in the organization was also a factor in this study and the analyzed data collected indicated that majority (48%) of the respondents were relationship officers, while 27% were supervisors, 22% middle level managers while only 3% were senior managers. This pattern was in line with proportionate technique used to identify respondents. Analysis was also done by duration of employee in the employment in the bank. The results show that majority of the respondents (32%) had been in the employment for 5 to 10 years, 28% for less than 5 years, 25% for 11 to 15 years while 15% for a period between 16 to 20 years. This implies that most of the respondents had been in employment for relatively long periods of time and hence were knowledgeable about the banks’ operations.

Descriptive statistics

Descriptive statistics were calculated for all the variables in the study using SPSS Version 22. Relatively large values for the mean indicate that respondents thought the variable was important while high values for standard deviation indicate large variations in opinions. The results of these tests are show in Table 4.1.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Std. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Differentiation strategy</td>
<td>3.7</td>
<td>1.2</td>
</tr>
<tr>
<td>Cost Leadership Strategy</td>
<td>3.7</td>
<td>1.3</td>
</tr>
<tr>
<td>Sustainable Competitive Advantage</td>
<td>3.3</td>
<td>1.2</td>
</tr>
</tbody>
</table>

As Table 4.1 indicates, the mean for differentiation strategy and cost leadership strategy was 3.7 while that of sustainable competitive advantage was 3.3. These values are closer to the maximum value of five in the Likert scale which shows that the respondents perceived these variables to be important in the respective banks. These opinions did not depict high variation across respondents owing to low values of standard deviations of 1.2 and 1.3 respectively.

Model testing

This study used multiple linear regression analysis to test hypotheses. These tests were done in SPSS at 95% confidence interval. All the hypotheses were tested using one-tail approach to determine significance levels owing to their mono-direction nature.

A regression analysis was done and the results are shown in Table 4.2.
Table 4.2: Model Fitness

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.842a</td>
<td>0.71</td>
<td>0.6</td>
<td>0.491098</td>
</tr>
</tbody>
</table>

Predictors: (Constant), Cost, Differentiation

The results presented in Table 4.8 present the fitness of model used of the regression in explaining the study phenomena. Both differentiation strategy and cost leadership strategy were found to be satisfactory variables in explaining sustainable competitive advantage. This is supported by coefficient of determination (R square) of 71%. This means that the model may be used to explain 71% of the variations in the dependent variable. Further testing of the model using analysis of the variance (ANOVA) was done and results shown in table 4.3.

Table 4.3: Analysis of Variance

<table>
<thead>
<tr>
<th></th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>6.58</td>
<td>4</td>
<td>1.645</td>
<td>6.821</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>86.583</td>
<td>359</td>
<td>0.241</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>93.163</td>
<td>363</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

As Table 4.3 shows analysis of the variance (ANOVA) results indicate that the overall model was statistically significant (p<0.000) and very strong F statistic of 6.821.

The regression coefficients for the individual variables are shown in Table 4.4.

Table 4.4: Regression of Coefficients

<table>
<thead>
<tr>
<th></th>
<th>Un standardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>1.300</td>
<td>0.391</td>
<td></td>
<td>3.322</td>
</tr>
<tr>
<td>Differentiation</td>
<td>0.166</td>
<td>0.059</td>
<td>0.149</td>
<td>2.834</td>
</tr>
<tr>
<td>Cost Leadership</td>
<td>0.085</td>
<td>0.040</td>
<td>0.110</td>
<td>2.124</td>
</tr>
</tbody>
</table>

As the Table 4.4 shows, differentiation strategy and sustainable competitive advantage are positively and significantly related (r=0.166, p=0.001). Also cost leadership strategy and sustainable competitive advantage are positively and significantly related (r=0.085, p=0.034).

Based on the results, the optimal model may be written as:

\[
SCA = 1.300 + 0.166DS + 0.085CLS
\]

Where:
- SCA=Sustainable competitive advantage
- DS=Differentiation strategy
- CLS=Cost leadership strategy

Hypotheses Results

**Differentiation strategy and sustainable competitive advantage**

Hypothesis $H_{01}$ stated that differentiation strategy has not contributed to the sustainable competitive advantage. Results in Table 4.4 show that the p-value is 0.005<0.05. This indicates that the null hypothesis is rejected and hence differentiation strategy contributes to
sustainable competitive advantage. This finding is consistent with Thompson and Martin (2005).

**Cost leadership strategy and sustainable competitive advantage**

Hypothesis $H_{02}$ stated that cost leadership strategy has not contributed to the sustainable competitive advantage. Results in Table 4.4 show that the $p$-value is 0.034<0.05. This indicates that the null hypothesis was rejected hence cost leadership strategy contributes to the sustainable competitive advantage. This finding is consistent with Porter (1998).

**SUMMARY, CONCLUSION, AND RECOMMENDATIONS**

**Summary**

**Differentiation Strategy and sustainable competitive advantage**

The first objective of the study was to establish the contribution of differentiation strategy to the sustainable competitive advantage. Regression results revealed that differentiation strategy has a positive and significant effect on sustainable competitive advantage of banks in the study. This means that an increase in differentiation strategy leads to an improvement in sustainable competitive advantage. This finding is consistent with that of Kamau, (2013) who found a similar results in his study but among supermarkets.

**Cost Leadership Strategy and sustainable competitive advantage**

The second objective of the study was to determine the contribution of cost leadership strategy to the sustainable competitive advantage among banks in Kenya. Regression results reveal that cost leadership strategy has a positive and significant effect on sustainable competitive advantage. This means that an improvement in cost leadership strategy leads to an improvement in sustainable competitive advantage. This finding agrees with that of Powers and Hahn (2004) who examined the performance impact of generic strategies in the banking industry and found that banks embraced differentiation strategy, focus strategy, stuck in the middle, cost leadership strategy, and customer service differentiation strategy.

**Conclusion**

The overall objective of this study was to establish the contribution of differentiation strategy and cost leadership strategy on competitive advantage of banks in Kenya. Based on the findings, the study concludes that the differentiation strategy is related to sustainable competitive advantage among banks in Kenya. Specifically, the strategy has been adopted by banks studied after the re-introduction of interest rates control. It is especially important to note that development and achievements as a result of adopting these strategies are likely to lead to increase in return on assets and return on investments as well as branch and regional expansion, creativity and innovations. The study also concludes that cost leadership strategy has a contribution to sustainable competitive advantage of the studied banks. This strategy will enable banks to manage their costs in the short term which is likely to lead to significant savings thus enabling banks to invest in innovations and market expansions for sustainable competitive advantage.

**Recommendations**

The study recommends that banks in Kenya should scale up on the attributes of product and physical differentiation strategies if they are to compete in the growing market. Product differentiation is one of the strategies that can be used to manage performance in the banking sector. Based on the findings, the study also recommends that banks should adopt low cost strategies compared to competitors in order to be able to attain overall cost leadership which is very key in achieving sustainable competitive advantage. The study further suggests that similar studies be done repeatedly given the dynamic and competitive nature of the
environment in Kenya in which banks operate. This will help banks establish whether the strategies they adopt can lead to their sustainable competitive advantage.

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